

Message Text

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ORIGIN EB-11

INFO OCT-01 NEA-14 ISO-00 TRSE-00 INRE-00 NSCE-00 SSO-00

AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00

FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 FEA-02

PA-04 PRS-01 USIE-00 /147 R

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TREASURY - MR. MCCULLOUGH (SUBS)

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FM SECSTATE WASHDC

TO AMEMBASSY ABU DHABI IMMEDIATE

C O N F I D E N T I A L STATE 145989

E.O. 11652: GDS

TAGS: ENRG

SUBJECT- DEMARCHE OPPOSING HIGH OIL PRICES

REF: ABU DHABI 869

FOR THE AMBASSADOR

1. IT HAS BEEN AND REMAINS OUR CONVICTION THAT WORLD OIL PRICES ARE TOO HIGH. THEY ARE STRAINING THE WORLD ECONOMY AND RETARDING INTERNATIONAL ECONOMIC GROWTH. THE MAINTENANCE OF CURRENT HIGH PRICE LEVELS IS CAUSING SERIOUS AND POSSIBLY LASTING DISLOCATIONS IN THE GLOBAL ECONOMY AND COULD LEAD TO THE VIRTUAL ECONOMIC COLLAPSE OF SOME LDCS. ON THE BASIS OF CURRENT MARKET CONDITIONS, OIL PRICES SHOULD BE FALLING RATHER THAN RISING.

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2. WE REGRET THE APPARENT ATTITUDE OF MOST PRODUCERS THAT

THEY CAN CONTINUE TO RAISE PRICES WITH IMPUNITY. WE REGARD THE UAE'S RECENTLY ANNOUNCED INCREASE AS UNFORTUNATE AND UNWARRANTED. OUR OPPOSITION IS TO ANY PRICE INCREASE, NOT JUST TO THAT PORTION WHICH EXCEEDS THE RECENT OPEC GUIDELINE ESTABLISHED BY THE PRODUCERS AT QUITO.

3. YOU ARE INSTRUCTED TO SEEK AN EARLY OPPORTUNITY WITH THE APPROPRIATE SENIOR UAE OFFICIAL TO EMPHASIZE OUR OPPOSITION TO HIGH OIL PRICES IN GENERAL AND TO THE RECENTLY ANNOUNCED INCREASE IN PARTICULAR. FYI - SIMILAR DEMAR-

CHES WILL ALSO BE MADE TO THE GOVERNMENTS OF ECUADOR, INDONESIA, IRAN AND VENEZUELA, WHO ALSO ANNOUNCED RECENT PRICE INCREASES. END FYI.

4. IN MAKING YOUR REPRESENTATION, YOU SHOULD DRAW ON THE FOLLOWING TALKING POINTS:

-- I HAVE BEEN INSTRUCTED TO BRING TO THE ATTENTION OF THE GOVERNMENT OF THE UAE MY GOVERNMENT'S DEEP CONCERN WITH OIL PRICE DEVELOPMENTS. THIS CONCERN IS ALSO BEING EXPRESSED TO OTHER OPEC GOVERNMENTS.
-- WE UNDERSTAND THAT YOUR GOVERNMENT RAISED ROYALTY TAXES BY 2 PERCENT, EFFECTIVE JULY 1. WE ARE DISTURBED BY THIS ANNOUNCED INCREASE. WE BELIEVE THE CONTINUED UPWARD TREND FOR OIL PRICES IS BOTH UNFORTUNATE AND UNWARRANTED.

-- THE UNITED STATES STRONGLY BELIEVES THAT WORLD OIL PRICES ARE ALREADY CRITICALLY HIGH. AS A RESULT, THE WORLD ECONOMY IS DANGEROUSLY STRAINED AND WORLD DEVELOPMENT IS BEING RETARDED. THE NEW INCREASE JUST ANNOUNCED BY THE GOVERNMENT OF THE UAE WILL COMPOUND THE DIFFICULTIES CONSUMING COUNTRIES FACE IN TRYING TO ADJUST TO THE ENORMOUS AND ABRUPT INCREASED IN PRICE OVER THE PAST EIGHTEEN MONTHS. ON THE BASIS OF CURRENT MARKET CONDITIONS, OIL PRICES SHOULD BE FALLING RATHER THAN RISING.

-- THE DIRECT AND INDIRECT BURDEN OF HIGH OIL PRICES
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ON THE US CONSUMER IS A HEAVY ONE. THE PLIGHT OF DEVELOPING CONSUMER COUNTRIES IS EVEN MORE PRESSING. THEIR INCREASED EXPENDITURES FOR ENERGY ARE SURPASSING THEIR TOTAL AID RECEIPTS AND COULD LEAD IN SOME CASES TO VIRTUAL ECONOMIC COLLAPSE.

-- WE BELIEVE CURRENT PRICE LEVELS ARE CONTRARY TO THE LONG-TERM INTERESTS OF THE UAE AND OTHER PRODUCERS.

IN OUR INTERDEPENDENT WORLD, THE ECONOMIC FUTURES
OF ALL COUNTRIES ARE CLOSELY RELATED. ALL NATIONS,
PRODUCERS AND CONSUMERS, WILL SUFFER IN A WORLD
THAT IS CHARACTERIZED BY FALTERING AND FAILING ECON-
OMIES.

-- IT IS OUR FIRM CONVICTION THAT HIGH PRICES ARE
DETRIMENTAL TO ALL COUNTRIES AND WE HOPE THAT THE
GOVERNMENT OF THE UAE WILL SEE FIT TO RECONSIDER
ITS VIEWS ON PRICES IN GENERAL AND THIS MOST RECENT
DECISION IN PARTICULAR.

-- WE WOULD HOPE THAT OUR TWO GOVERNMENTS COULD WORK
TOGETHER TO ENSURE MEANINGFUL COOPERATION BETWEEN
PRODUCING AND CONSUMING NATIONS AND THEREBY CONTRI-
BUTE TO AN INTERNATIONAL ECONOMIC SYSTEM THAT PRO-
VIDES FOR CONTINUED ECONOMIC GROWTH AT SUSTAINABLE
PRICE LEVELS.

5. PLEASE REPORT REACTION OF UAE TO YOUR DEMARCHE. SISCO

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